



**AMERICA'S TRANSPORTATION
INFRASTRUCTURE CHALLENGE**

Remarks of

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**U.S. Chamber of Commerce
Committee on Transportation Infrastructure and Logistics**

**St. Regis Hotel
Washington, DC
November 3, 2005**

I am very pleased to have this opportunity to speak to the U.S. Chamber's Committee on Transportation Infrastructure and Logistics. The Department of Transportation has a very close and productive working relationship with the Chamber. That's because of the Chamber's superb work on the areas we care most about and because of the quality of the people who staff its programs. Ed Mortimer has done a really terrific job of representing your interests in the Congress and in projects that assist our Department in its mission. In 2003, this Committee delivered a *Report on Trade and Transportation – A Study of the North American Intermodal System*. Later today, you will be briefed on another cutting edge report from the Chamber, "*The Future of Highway and Public Transportation Financing*."

Two things are clear:

- The Chamber steps right up to the plate in identifying the hard questions and then pushing the hard deliberations that must occur around those questions.
- As the title of your newest report indicates, the world of transportation financing has changed, and it's time to take a good hard look at where we go moving forward.

Some of you may be familiar with Malcolm Gladwell's best-selling book, *The Tipping Point*, in which he argues that little changes can have big consequences and that when small numbers of people start behaving differently, that behavior can ripple outward until a critical mass or "tipping point" is reached, changing the world. I believe that we are currently approaching such a tipping point in the supply, the financing and the management of the U.S. transportation system. Perhaps the Chamber study will provide the final nudge that is required to give the conversation the momentum it needs.

These are no small issues, and therefore the Department is grateful to have the Chamber as one of many voices that will assist us in finding a new path forward. Here are a few observations that this group knows better than I – observations that attest to the need for re-tooling the transportation activities as we know them today. I would argue that we have reached that famous tipping point, and we have already begun a course correction.

The transportation sector is transitioning from a public works mentality to managing a transportation enterprise, and managing that enterprise to be optimally performing, optimally priced, and optimally responsive to moving people and goods economically.

Times are changing in the United States

We are currently in the midst of what might be considered the third major phase of transportation innovation in the last 50 years. The first major innovation came in 1955 with the creation of the Eisenhower and Interstate Highway System, which we carried out through a traditional public works approach. Twenty-five years later came the second major innovation – transportation deregulation – which freed markets to produce lower cost and more efficient transportation. Each of these innovations transformed the transportation sector, allowing goods to move more freely, quickly, and cost-effectively.

Today – another quarter-century later – an enormous confluence of events has created the potential for a third great period of innovation.

- **A mature capital plant.** Now that our capital plant is mature in many areas, there is a need to leverage technology to maintain and manage our existing system more effectively. New information technologies, such as EZ-Pass, PierPass, wireless communications, GPS/GIS systems, and other supply chain logistics innovations, hold great promise in this area.
- **Global economic change.** Some may dispute exactly how “new” global economic change is – in many ways it's something that we've always had to deal with. But it is clear that the global economy is now moving at a ferocious pace and with stunning inter-connectivity. China and India are formidable new players in the game, increasing their involvement in global economic markets to levels that we've rarely seen before. And with a population of over 2 billion, their actions are having a huge impact on us. Exports from China to the U.S. and Europe represent more than 40 percent of China's total export value, compared with less than 20% in 1990.

- **Domestic economic change.** In the 1970's the U.S. had approximately 200 million citizens who together owned 130 million vehicles. Today our nation has about 300 million residents, who together own 230 million vehicles. Our airports currently process nearly 700 million passengers per year, up from 300 million prior to airline deregulation. Looking ahead, we're bracing for the billion passengers per year that we expect by 2025.
- **The Highway Trust Fund** was a powerful mechanism for financing much of the transportation system that we enjoy today as far as highways and transit are concerned. But today we have new issues and some particularly acute ones relating to the need to finance expanded infrastructure at freight gateways – at our ports and border crossing points. Very clearly, the Highway Trust fund needs re-tooling. It is no longer sufficient to address today's challenges. That's why we are so pleased that the Chamber Study is kicking off the discussion of what will follow the Highway Trust Fund.

A Global Response

In the face of these changes, many organizations – both in the U.S. and around the world – have advanced innovative responses to transportation challenges.

On highway segments throughout the United States, states and localities are analyzing – and in some cases implementing – toll and congestion charges to finance the construction of infrastructure and to manage demand as we've never done before. Cities and states have begun to pursue the sales of transportation assets. Asset sales – The Chicago Skyway, the New Jersey Turnpike, the Dulles Greenway and now the Dulles Toll Road – to name just a few – are unfolding almost weekly. Freight railroads are squeezing more cars and intermodal units into a scaled-back route network than ever before, and – some noticeable glitches aside – are doing so with historically quicker turnaround and higher reliability than anytime in their history. And the PierPass initiative at the Ports of Los Angeles and Long Beach has been successful in diverting some peak period port trucking operations to less-congested nighttime hours.

With the release of the *Future Highway and Public Transportation Finance Study Final Report*, the Chamber of Commerce shows it is on the vanguard when it comes to policy change. This report, which identifies highway funding needs more clearly than ever before, reflects a very solid understanding of the problem and initial proposals as to how we get from the “public works” era to a “transportation system” era.

Other nations are also advancing innovative transportation solutions. London has instituted a system of cordon pricing within its urban center – a system that many cynics thought wouldn't work. However, to their surprise, cordon pricing has been quite successful in downtown London, and officials are investigating the possibility of expanding it further throughout the city. The U.K.'s Transport Secretary, Alistair

Darling, has come out in strong support of road pricing mechanisms, and the United Kingdom is moving forward toward testing a nationwide system of road pricing.

India has been pursuing pricing strategies for both its road and maritime systems, is linking road development to seaport development, and is seeking significant privatization of its transportation system. Germany is currently testing a system that would allow for satellite-based tolling of trucks.

Canada, Mexico, and a number of countries throughout Europe, Asia, and Latin America are currently restructuring their port and freight operations and policies. Several Mexican ports are poised to accommodate a portion of U.S. west coast import traffic, and a major port expansion is underway in Vancouver, Canada.

So this brings us to the crux of today's discussion, what's the next wave of transportation policy, and most important to this group, what's the next wave for freight system improvements?

The scope of the challenge

The challenge in the United States is serious and calls for further private sector engagement in improving the physical capacity of the supply chain.

In the near-term, expect continued growth in demand for port throughput – around 10 percent a year – as well as an increase in new vessel capacity as carriers respond to growing demand. The intermodal network will continue to experience lack of capacity and erratic service reliability, and intermodal congestion will continue to get worse. There is no light at the end of the tunnel. We expect LA/Long Beach to remain the primary west coast trade gateway, though there will be some diversion to other ports. And we assume that growing capacity constraints will slow the ability of the transportation network to recover from any adverse events.

In the mid-term, we expect that supply chain velocity will continue to slow. Shippers and importers will rethink and adjust their supply chains, but much of their capital investment has been made and resources have already been committed – and unfortunately not necessarily in places where they will need to be going forward. In time, higher costs will begin to flow through to consumers and the U.S economy.

Given this forecast, the consequences of inaction are significant:

- Infrastructure congestion at freight gateways is not temporary – the challenges will become greater and be with the U.S. for years.
- Similar challenges outside the U.S. will exacerbate the problems in the U.S.
- Market growth is currently far outpacing infrastructure development and will continue to do so.
- Transport and supply chain costs will continue to increase and flow through to U.S. consumers.

- The U.S. is exposed to a potential breakdown in the flow of commerce that would have a significant impact on the U.S. economy.

A collaborative public-private approach to freight system productivity

SAFETEA-LU provided some of the tools we need, but there is still much to be done, and there are many differences of opinion on what is wrong and how to fix it.

Historically the response of the Department of Transportation to transportation challenges has been to step forward with a big open checkbook. But the days of big spending are quickly coming to an end. Looking forward, projected Highway Trust Fund revenues are unlikely to be sufficient to meet our Nation's transportation infrastructure funding needs, and the Federal budgetary landscape does not look particularly promising in the years ahead. Every one of the programs within the Department of Transportation falls within the category of Federal "discretionary funding," so we're looking forward to the likelihood of flat budgets during good years and declining budgets during bad years.

The bottom line is that we won't simply be able to buy our way out of our problems. Recognizing this, DOT is working creatively and innovatively to broaden the set of policy tools at our disposal and to develop new approaches for meeting transportation challenges. The private sector obviously has a big role to play in all of this, and as we go forward we plan to reach out to our private partners – including the Chamber – to further engage in our responses.

So, first, what are the elements of a collaborative public private approach to freight system productivity? I know that earlier today, Sam Crane gave you an update on the activities of the Marine Transportation System National Advisory Council (MTSNAC), and I further understand that MTSNAC intends to deliver a White Paper to Secretary Mineta. We look forward to that Report and applaud MTSNAC for preparing it. Sam also briefed you on another effort on which my office is collaborating with the Transportation Research Board -- the TRB Freight Industry Roundtable. In that Roundtable we are seeking industry comment and guidance on an emerging freight policy to guide the Department's future collaborative efforts on improving freight capacity and freight velocity at our gateways.

DOT's policy response will focus on seven objectives:

- Improve the operations of the existing freight transportation system.
- Improve the physical capacity of the freight transportation system.
- Expand the use of pricing to cover costs of maintenance and expansion, manage capacity, and address equity issues...there has to be a reasoned discussion about user fees to improve freight systems, especially at our ports.
- Consider regulatory and institutional changes to improve freight transportation performance.
- Proactively identify and address emerging transportation needs.
- Maximize the safety and security of the freight transportation system.

- Mitigate and better manage environmental consequences of freight transportation.

My question to this group is: Are we on the right track? Are these seven policy platforms responsive to challenges you experience in moving your products to market? We hope to hear feedback from you.

I can't stress enough how much we value the input from the U.S. Chamber, MTSNAC, and the anticipated guidance from the TRB Freight Industry Roundtable. Frankly, the Department needs your voices and your help in three ways.

1. We need you to keep telling the freight story to the Department, Capitol Hill, Executive Branch leadership, and your local business communities.
2. Private sector input into our National Freight Policy development process is critical, and far outweighs our role of facilitation and promotion. We welcome your feedback and look forward to working with you to further refine this policy.
3. Most importantly, we need the Chamber's membership to work with the Department to take advantage of SAFETEA-LU's new tools for financing transportation infrastructure. We have a freight implementation team ready to discuss these programs with your companies.

Highways, ports, rail yards, airports and border crossings have profound significance for your bottom line costs for distribution; and they have national strategic significance for the Nation's continued leadership as the world's largest global trader. I started by suggesting that we have indeed reached a tipping point in how we manage, plan, and finance the transportation capital plant. This strikes me as being particularly true for the nation's intermodal freight system. As Gladwell writes, we are indeed at the moment of critical mass, the threshold, the boiling point, a place where the unexpected becomes expected, where radical change is more than possibility. Future generations will judge us to a large extent based on whether we respond effectively to this historic challenge.

Thank you for inviting me to be with you today.

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